

Abstract

Import Competition and Employment Dynamics

Håle Utar¹

January 2006

This paper develops a new way to quantify the effects of import competition on intra-industry patterns of job creation and destruction and productivity. It is based on an industrial evolution model with imperfectly competitive product markets, heterogeneous firms, and endogenous entry and exit. First, Colombian panel data on metal product producers are used to identify the model's parameters, including the sunk start-up costs faced by new firms, the stochastic process that governs firms' idiosyncratic productivity shocks, and the hiring and firing costs associated with changing employment levels. Then several counterfactual trade policy experiments are conducted. In addition to quantifying the effects of trade openness on job turnover patterns, the model delivers predictions on the associated changes in the aggregate productivity, the nature of the transition process when openness changes, and the role of hiring and firing costs in shaping firms' responses and the role of aggregate volatility.

The preliminary simulation results based on these parameters show, among other things, that switching to a more open trade regime is associated with a significant reduction in the number of jobs in the short-run. A substantial fraction of the total reduction in jobs is due to net exit. There are also productivity gains associated with the switch to a more open trade regime because of the selection effect through entry and exit. On the other hand, heightened exchange rate volatility decreases labor productivity by about 3 per cent.

¹ University of Colorado, Boulder. Email: Hale.Utar@colorado.edu